

Tax Tips

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A NEWSLETTER FOR NEW BUSINESSES

courtesy of

The Internal Revenue
Service

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IRS Tax Assistance Telephone Numbers

1-800-829-1040
for general tax assistance

1-800-829-4477
TeleTax
for recorded tax information

1-800-829-3676
for FREE
tax forms and publications

Business Structure:

The Art of Shaping Your Business

BOne of the biggest business decisions you will make is what structure your business will take. Will you be a sole proprietor? Will you and an associate open a partnership? Or is a corporation in your future? Whatever one you choose will affect all aspects of your business. There are several ways to structure a business, each with advantages and disadvantages...

Sole Proprietorship: A sole proprietorship is an unincorporated business owned by one individual. It's the simplest form of business organization.

Some advantages of the sole proprietorship are:

- it's simple to organize,
- the owner has total control over all decisions and gets all the profits,
- legal restrictions are minimal, and
- it's easy to discontinue the business.

Some disadvantages are:

- the owner is 100% liable for all business risks. Creditors can come after personal assets to cover business debts, and
- the ability to raise capital is based on how much the owner can personally secure. This may slow down or even stop expansion. The most common reason sole proprietorships go under is lack of capital.

Partnership: A partnership is a relationship between two or more persons who join together to carry on a trade or business. Each person contributes money, property, labor or skills, and each shares in the profits and losses of the business.

Any number of persons may join in a partnership. "Person," when used to describe a partner, means an individual, corporation, trust, estate or another partnership.

Some advantages of a partnership are:

- it's easy to organize,
- it may have greater financial strength than a sole proprietorship,
- it combines the managerial skills and judgements of all partners,
- it has definite legal status, and
- each partner has a personal interest in the business.

Some disadvantages are:

- each partner may be liable for all business debts, and
- decision-making authority may be divided among all partners.

Corporation: A corporation is treated by law as an entity. It has a life separate from its owners and has rights and duties of its own. The owners of a corporation are the stockholders. The managers may or may not be stockholders. Forming a corporation involves an exchange of money or property, or both, by shareholders for capital stock in the corporation.

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Some advantages of a corporation are:

- stockholders have limited liability,
- it's easier to raise capital by selling stock,
- it's easier to raise capital and expand a corporation than any other business form, and
- a corporation is adaptable to both small and large businesses.

Some disadvantages are:

- corporations are subject to tax on their incomes at the corporate level. Then when the income is distributed in the form of a

dividend, it is taxed again, but this time to the shareholders.

S Corporation: Generally, an S corporation is a small business corporation that has its income taxed like a partnership's. Basically, an S corporation does not pay tax on its income. The income and expenses are divided among the shareholders, who report it on their individual tax returns.

For more information on the different types of business organizations, see Publication 334, Tax Guide for Small Business. ☺

A Notice from the IRS: What To Do?

Sometimes the obvious answer is the best one. If you get a notice of any kind from the Internal Revenue Service, open it, read it, then do something about it.

If you don't understand your notice, read the instructions carefully. In most cases, the notice will include details on how to get more information. Also, most notices include a deadline for your response, so it's important to be prompt.

The IRS writes to people for many reasons. They may need information missing from your tax return. If your notice is about an examination or audit, you will be asked to produce certain information for the examination at a specified time and place. Or, your notice may ask for payment of a tax bill.

Examples of other notices you might receive include:

- ✓ **CP 2501:** A discrepancy was found between what you reported as your income, credit or deduction and what the IRS had on file.
- ✓ **CP 102:** A math error was found on your quarterly employer's tax return, Form 941, and the IRS believes you owe more tax.

✓ **CP 165:** Your check for your federal tax deposit or estimated taxes was returned. This notice asks for the payment, plus a bad check penalty of two percent (the minimum penalty is \$15).

✓ **CP 138:** The tax you overpaid on one tax return was applied to another tax return where you owed tax.

✓ **CP 205:** You used the wrong taxpayer identification number on your Federal Tax Deposit Coupon when you deposited your payroll taxes.

Whether you agree with the notice or think it is wrong, be sure you call or write the contact listed in the notice, or call your local IRS office before the deadline on the notice. It is important to let the IRS know that you got the notice and are doing something about it.

A quick response can reduce the amount of correspondence between you and the IRS. Procrastination, especially in the case of notices requesting payment, can increase the amount you owe by adding interest and penalties to your bill. ☺

Develop Good Bookkeeping Practices Today

One of the best investments of your time is setting up a bookkeeping system that will help you monitor your business and keep good records. Here are a few ideas that help make it easier. There are two types of bookkeeping systems, and you must decide which is the right one for your business.

Single-entry bookkeeping: Single-entry is the simplest form of bookkeeping. It generally includes a daily summary of cash receipts and a monthly record of receipts and disbursements. For each transaction, only one entry is made. A checkbook, for example, is a single-entry bookkeeping system, with receipts listed as deposits and expenses listed as checks or withdrawals.

Double-entry bookkeeping: This is more complicated than single-entry bookkeeping but possibly a better choice, thanks to some of its built-in controls for accuracy. Under this system, transactions are entered in journals and then posted in ledger accounts. For example, each debit entry is offset by a corresponding credit entry, so the account is always in balance. The ledger shows income, expenses, assets, liabilities and net worth. ☺

Money Laundering Is

Money laundering makes dirty money.

Most often, people think of crime or drug lords laundering their money so it cannot be traced to them or their crimes. However, even money earned in legitimate activities can be laundered.

Since 1970, Congress has passed several laws to expose money laundering. Financial institutions, as well as casinos, must now file currency transaction reports (CTRs) with the Internal Revenue Service. Other businesses must file Form 8300, "Report of Cash Payments Over \$10,000 Received in a Trade or Business."

Now, you might think that as a small business you don't have to worry about money laundering. Although high-ticket-item businesses such as auto dealers, antique or art dealers, jewelers, law firms, or real estate or insurance agencies may be the prime outlets for money launderers, any business can get launderers who want to purchase more than \$10,000 worth of services, products or property with cash.

Businesses don't have to receive the entire \$10,000 in one lump sum. If they receive cash payments from one customer that eventually total or exceed \$10,000 in a 12-month period, they must report it.

DIRTY BUSINESS

Cash includes certain cashier's checks, bank drafts, traveler's checks and money orders with a face amount of \$10,000 or less.

Businesses must file Form 8300 with the IRS within 15 days after receipt of the payment(s) that total over \$10,000. A business person may file Form 8300 voluntarily if he or she feels a cash payment of \$10,000 or less is suspicious.

Businesses must also give a written statement to those named on a Form 8300. The statement must give the name and address of the business and the total amount being reported. It also must state that the information is being reported to the IRS. This statement must be sent to the cash customer by January 31 of the following year.

More information can be found in Publication 1544, Reporting Cash Payments of Over \$10,000 (Received in a Trade or Business). ☺

Up to Speed on the Information Superhighway

Get tax forms and information without calling, writing or visiting

the IRS. How? Through your computer's modem. The IRS provides tax forms, instructions and information online over FedWorld, the public's electronic source for government information. Once you connect to FedWorld, just type "go/IRIS". "IRIS" stands for the Internal Revenue Information System.

FedWorld can be dialed-direct by setting modem parity to none, data bits to 8, stop bit to 1, terminal emulation to ANSI, duplex to full,

and communication software to dial 703-321-3339.

FedWorld is available free over the Internet:

- telnet - fedworld.gov
- FTP - ftp.fedworld.gov
- World Wide Web - <http://www.ustreas.gov/treasury/bureaus/irs>.

Technical questions regarding FedWorld can be directed to the FedWorld help desk 24 hours a day at 703-487-4608. ☺



**Internal
Revenue
Service**

**PC:C:C
1111 Constitution Ave., N.W.
Washington, DC 20224-2686**

Official Business
Penalty For Private Use \$300
Address Correction Requested

Bulk Rate
Postage & Fees Paid
IRS
Permit No. G-48

Taxcalendar

October 2

File Form 730 and pay tax on bets accepted during August.

File Form 2290 and pay heavy vehicle use tax for vehicles first used in August.

October 4

Deposit payroll tax for payments on September 27, 28 and 29.

October 6

Deposit payroll tax for payments on September 30 and October 1, 2 and 3.

October 10

Deposit environmental, fuel, luxury, retail and manufacturers tax for the last 15 days of September (for gas tax, the last 8 days of September).

October 12

Deposit payroll tax for payments on October 4, 5 and 6.

October 13

Deposit payroll tax for payments on October 7, 8, 9 and 10.

Deposit gas tax for first 8 days of September if the 14-day rule applies.

October 16

Deposit payroll tax for payments in September if semi-weekly rule did not apply.

October 18

Deposit payroll tax for payments on October 11, 12 and 13.

October 20

Deposit payroll tax for payments on October 14, 15, 16 and 17.

October 24

Deposit environmental, fuel, luxury, retail and manufacturers tax for the first 15 days in October.

October 25

Deposit payroll tax for payments on October 18, 19 and 20.

October 27

Deposit payroll tax for payments on October 21, 22, 23 and 24.

Deposit gas tax for first 15 days of October if the 14-day rule applies.

October 31

File Form 941 for the 3rd quarter of 1995.


Deposit federal unemployment tax owed through September if more than \$100.

File Form 720 for environmental, fuel, luxury, retail and manufacturers tax for the 3rd quarter of 1995.

File Form 730 and pay the tax on bets accepted during September.

File Form 2290 and pay the heavy vehicle use tax for vehicles first used in September.

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For more information on other excise taxes, see
Publication 509, "Tax Calendars for 1995," and
Publication 510, "Excise Taxes for 1995."